



OPERS INVESTMENTS ARE GOOD FOR OHIO

Public pension systems make a significant contribution to a state's economy through more than just pension and health care benefit payments to public-sector retirees. Because they are such a large source of investment dollars, public pension and health care assets also drive economic activity, job creation, and growth by supporting a state's financial and private industries.

However, the primary objective of public retirement system investments is to achieve a competitive return for its beneficiaries. To fulfill this mission, plans seek the best rate of return with the least amount of risk in order to preserve and grow the assets they manage on behalf of their beneficiaries.

OPERS Investment Philosophy and Goals

OPERS investments are governed by state law requiring a "prudent person" standard to be applied to all investment decisions. Under this standard, fiduciaries are to "discharge their duties solely in the interest of the fund participants and beneficiaries and with the degree of diligence, care and skill which prudent persons would ordinarily exercise under similar circumstances in a like position."

The OPERS Board of Trustees, as the responsible fiduciaries of the system, guide and determine the policies and strategies for OPERS' investments. The Board empowers the OPERS investment professionals with the directive of securing the best possible returns, while managing an acceptable level of risk.

Asset allocation is the key determinant of return to help reduce overall risk. How funds are distributed in a portfolio will help reduce overall risk, and is a key investment policy decision. Asset allocation determines which classes of assets (e.g. stocks or bonds) will be emphasized in order to achieve OPERS' financial goals.

The goals of the OPERS Investment Division are:

- To generate target returns for the total fund, each asset class and portfolio.

- To maintain a competitive cost structure, relative to their peers.
- To hire, develop and retain top-caliber investment professionals who are aligned with the Division's core values; and
- To develop innovative strategies to meet or exceed investment goals and objectives.

OPERS recently released its preliminary, unaudited investment performance for 2011. The OPERS fund achieved a 0.22 percent investment return in 2011. This follows two strong years in which the portfolio returned 13.9 percent in 2010 and 20.06 percent in 2009. OPERS assumes it will annually earn 8 percent on its investment portfolio and its 30-year, annual rate of return is 8.97 percent.

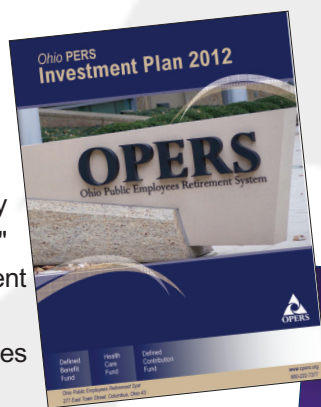
Ohio Initiatives

The Ohio Public Employees Retirement System (OPERS) is making valuable contributions to Ohio's economy by establishing a regional investment program (the Ohio-Midwest Fund), investing in private equities and the real estate industry, entrusting its assets to Ohio-qualified public markets managers, and holding stock in Ohio-headquartered public companies. As a result of these initiatives, OPERS currently invests more than \$1 billion with companies headquartered in Ohio.

The Ohio-Midwest Fund

The Ohio-Midwest Fund is an OPERS program that invests in high-quality, venture capital and private-equity funds in the region. This initiative not only generates positive returns for OPERS members, but also encourages business growth within Ohio and the surrounding region. The first two funds, established in 2005 and 2007, were for \$50 million each. In 2011, the OPERS Board of Trustees approved a plan for an additional \$100 million fund to be managed by Permal Capital Management of Boston. Since its inception, the Ohio-Midwest Fund has favorably impacted more than 2,800 jobs and generated more than \$160 million of investments in Ohio companies.

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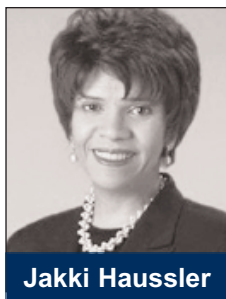
This investment program has helped to grow many emerging companies in Ohio and sustain them through the recent recession. For example, a September 2006 Columbus Business First article reported that funds from the Ohio-Midwest Fund allowed Strength Capital Partners LLC, a Detroit-area private equity firm, to open a Cincinnati office to do more business in the Ohio market and to purchase a majority stake in the Urbana-based Rothschild Berry Farm to

help the profitable specialty-food maker build its value.

Further, Baiju Shah, president of Bio-Enterprise Corp., which assists health care companies in northeast Ohio, noted in a November 2010 Crain's Cleveland Business article that OPERS' commitment of another \$100 million to the Ohio-Midwest Fund was a sign of continuing progress for the region's solidly improving health care sector.

EXTERNAL MANAGER SPOTLIGHT

The Ohio Public Employees Retirement System recently hired Opus Capital Management to oversee a \$100 million small-cap portfolio as part of its external manager program. Founded in 1998 in Cincinnati by Len and Jakki Haussler, Opus started with \$12 million in assets under management and has since grown to manage \$1.75 billion for public plans, corporate pension plans, foundations and endowments.



Jakki Haussler

"We're absolutely thrilled at the opportunity to work with OPERS and in the state of Ohio as well," said Jakki

Haussler, Opus Capital's chief executive.

Opus Capital is one of 25 external equity managers OPERS employs and an example of how keeping business in state is important. While Opus was hired as a small cap manager, OPERS also recently committed \$400 million to 10 Ohio-qualified and minority-owned emerging managers. Many of them are headquartered in Ohio.

In total, OPERS invests more than \$1 billion with companies headquartered in the Buckeye State. "From the investment in securities of Ohio-based companies, to fees we pay to Ohio investment managers and brokers, to direct investment in the companies that do business every day here, OPERS is a vital contributor to the Ohio economy," said OPERS Chief Investment Officer John Lane.

OPERS' current target for small-cap and mid-cap equities is 7 percent of the \$70.4 billion fund. External managers oversee

\$1.1 billion of the \$1.6 billion that OPERS currently has allocated to small-cap equities.



Len Haussler

"Small cap" funds often are defined by the Russell 2000, the universe of equities after the first 1,000 largest companies. Mr. Haussler said that Opus typically considers only companies with a market capitalization ranging from \$250 million to \$2.5 billion. Companies are moved off

the list once they approach \$5 billion in market cap.

"We want to remain true to our school, not get into mid cap or large cap stocks," Mr. Haussler explained.

Opus Capital's expertise is centered on a small-cap value equity model that during a typical year holds the stocks of 55 to 75 companies. It turns over 40 percent to 60 percent of the shares annually. Opus Capital will oversee a separately managed account for OPERS that is not commingled with other clients' money.

According to Mr. Haussler, the Opus Capital small-cap value portfolio has earned an average return of 8.8 percent for the past decade, compared to 5.6 percent for the Russell 2000.

Mrs. Haussler said this is the first time it has worked for one of Ohio's five state pension funds.

"We have relationships with a lot of consultants, but we love the opportunity to go direct," she said. "The investment team at OPERS is outstanding."

OPERS Government Relations Team

Gordon Gatien
Government Relations Officer – 614-222-2924

Deborah McCarthy
Assistant Government Relations Officer – 614-222-6466

Christopher Collins
Assistant Government Relations Officer – 614-222-0555

Anthony Tedesco-Nichols
Assistant Government Relations Officer – 614-222-0381



The Ohio Public Employees Retirement System (OPERS) is the largest public pension fund in Ohio and the 11th largest public pension fund in the U.S. In operation since 1935, OPERS serves nearly 954,000 members, including more than 176,000 retirees and beneficiaries.